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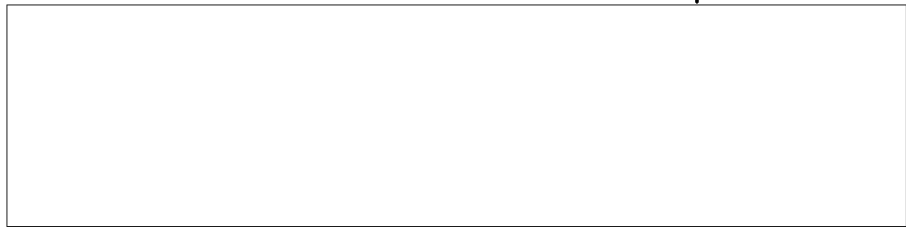
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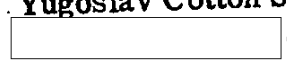
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H I G H L I G H T S

As the Soviet delegate to the Security Council continued to stall for time while preparing the propaganda basis for some future action (see page 2), the USSR was continuing to strengthen its position in Eastern Europe. Recent evidence points to a marked acceleration throughout Eastern Europe of the Soviet petroleum stockpiling program which will increase Soviet capability for military action (see page 2), and Poland's key role in augmenting the Soviet industrial potential is indicated by the recent sharp upward revision of Polish production goals, particularly for heavy industry (see page 3).

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In the Far East, the Chinese Communist regime has apparently decided it cannot now or in the near future consolidate its hold over the Chinese people through police methods alone (see page 9). Although determined to deal severely with the estimated 200-250,000 guerrillas, Peiping is attempting to popularize the Communist Party and to gain support by adopting a moderate land reform program.

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SOVIET ACTIONS

Soviet UN Tactics In the first ten days since the return of the USSR to the Security Council, Soviet delegate Malik appears chiefly interested in stalling for time while preparing the propaganda basis for some future action. By alternatively emphasizing three main issues--the seating of the Chinese Communists, "peace" in Korea, and US "aggression" against Korea and Taiwan--the Soviet delegate is attempting to establish the USSR as the champion of Asian self-determination and the proponent of peace in Korea, while simultaneously undermining Asian and Western support for the US. The Kremlin probably estimates that this propaganda approach will lend support to Soviet charges of US aggression in the event of US intervention to prevent an invasion of Taiwan, and will not place serious obstacles in the way of subsequent more concrete proposals to gain a favorable settlement in Korea. Although Soviet maneuvers in the SC have done little to convince the Western world of the peaceful intentions of the USSR, the USSR has succeeded in widely publicizing its propaganda themes, and the debates thus far have clearly demonstrated that the US cannot count upon the unqualified support of the non-Soviet UN members. India has cast four votes with the USSR and abstained once; Egypt has voted once with the USSR and abstained twice; and on one occasion the Chinese Nationalist vote was necessary to obtain a tie. As the debate continues, the USSR will seek to widen these breaches in the anti-Soviet front by forcing the US to vote against Soviet "peace" proposals and by capitalizing on the vulnerable US position regarding Taiwan.

Petroleum Stockpiles Recent evidence suggests a marked acceleration throughout Eastern Europe of the Soviet long-range petroleum stockpiling program which began in 1948. During July, vigorous efforts to

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increase gasoline availability in strategic areas were indicated by the imposition of additional restrictive measures, the acquisition of special blending agents for aviation gasoline, and unusual activity at fuel depots. Supplies of petroleum have been vastly increased in Bulgaria; the shortage of petroleum in Rumania suggests increased allocation to strategic or operations stocks; petroleum products arriving in Czechoslovakia have for the first time been confiscated by the military; and in East Germany, military restrictions on the use of gasoline have been tightened. Although these developments may be related to military summer maneuvers, their scope indicates that the stockpiling program may be progressing from a strategic to an operational phase. Although in itself not a firm indication of Soviet intent regarding military aggression in Europe, the stockpiling increases Soviet capability for military action and at least suggests that the USSR believes it necessary to be better prepared for the possibility of military action.

Polish Industry Poland's key role in augmenting the Soviet industrial potential is indicated by the recent sharp upward revision of production goals in Poland's six-year plan (1950-55). The 1955 target for gross industrial production was raised from 58 percent to 85-95 percent over 1949, and the average increase in national income is now planned at a rate of 13.4 percent annually. Greatest emphasis has been placed on heavy industrial expansion, particularly on machine building. Meanwhile, Poland's 1950 trade with the USSR and the other Satellites has also been increased sharply. These increases have been made possible by over-fulfillment of past production schedules and demonstrate that Poland has made excellent progress in building a socialized economy and expanding its industrial potential.

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T O P S E C R E T

East German Elections The Soviet Union has apparently reversed an earlier decision of the Socialist Unity Party to permit East Berlin to participate in the October 1950 elections in the German Democratic Republic. This reversal suggests a Soviet reluctance at this time either to destroy the fiction of quadripartite supervision of Berlin or to give the West justification for incorporating West Berlin into the German Federal Republic. The formal incorporation of East Berlin into the German Democratic Republic would give no new advantage to the USSR, whereas incorporation of West Berlin into the German Federal Republic would lessen Communist opportunities for penetrating West Berlin by improving the sector's morale and possibly its general economic and political situation. The Soviet decision may also indicate some uncertainty concerning the outcome of an election in East Berlin. Soviet officials may feel that very obvious manipulation of the ballots, easily discernible to Western observers, would be necessary in order to achieve the desired results.

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COMMUNIST CHINA

The Chinese Communist regime has apparently reached the conclusion that it cannot now or in the near future consolidate its hold over the Chinese people through police methods alone, and it is attempting to gain popular support by allowing the general public to become familiar with Communist Party activities and by adopting a moderate land reform program. Peiping is still determined, however, to deal severely with active opponents of the regime.

The Party The Communist Party, apparently on an experimental basis at present, is opening its doors to the general public in Chungking. Inasmuch as the Communists have made known their intention to greatly restrict recruitment in the newly "liberated" areas until after completion of land reform, this experiment appears to envisage not a planned increase in membership but rather a reduction in the amount of special privilege and secrecy which surrounds Party activities and tends to alienate the people. The Communist chief of Chungking has directed the Party's sub-branches to open themselves to the local populace; lists of Party members are to be made public; and non-Party members are to be invited to Party meetings to study the Party's objectives and problems. Elsewhere in China, the general public has been invited to use the correspondence columns of the press to air its grievances against official abuses and incompetence, and recent major policy statements, as well as press and radio comment, have stressed the need for "strengthening relations between Party and non-Party."

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T O P S E C R E T

Land Reform The new Chinese Communist land reform law also reflects the Party's desire to gain popular support. This desire, plus that for maximum production, is apparently causing Peiping to approach the "socialization" of agriculture with extreme caution. The new reform law is more moderate than programs previously adopted in North China, Manchuria, and North Korea; it gives preference in land and property allocations to the more affluent tenant farmer, assures the moderately prosperous farmer participation in local political groups, and guarantees the private property rights of the new landowner. Although a recent Soviet broadcast implies Soviet approval of Peiping's new program, the less moderate North China and Manchurian programs were criticized in a Soviet journal six months ago on the grounds that they did not eliminate the dangers of "concealed forms of exploitation" or the future "growth of new exploiting elements."

Dissident Groups Although the Chinese Communists are attempting to win over the Chinese people generally, the recently announced decision to establish special "People's Tribunals" to "protect the revolutionary order" indicates their determination to crack down on active opponents of the regime. It is estimated that there probably are some 200,000 to 250,000 fairly well-armed guerrillas (small arms only) harassing the Communist regime in China today, in groups ranging from 10 to 10,000 men. The various guerrilla groups, however, lacking unified direction and leadership, will probably eventually be eliminated, at leisure, by the Communists. Under present circumstances they can be expected to serve only as a nuisance factor, hampering Communist efforts at consolidation, and not as a threat to the stability of the Communist regime. The guerrillas' chief activity has been marauding and banditry, their basic motivation appears to be economic rather than political, and there are no indications that they would be able to launch a successful counter-revolution in the foreseeable future.

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T O P S E C R E T

TOP SECRET**LOCAL DEVELOPMENTS****BURMA**

UN Assistance If the Burmese Government proceeds with its present plan to refer to the UN on 15 August the problem of armed and belligerent Chinese Nationalist troops in northeastern Burma, the USSR will unquestionably seize upon the issue to attack the Chinese Nationalists in the UN, whose position would be completely indefensible, and to embarrass the US by seeking to associate it with aggressive Nationalist action in Burma and to divert the UN spotlight from Korea. The Burmese intend to take the action unless the Nationalist Government on Taiwan orders its troops to lay down their arms and allow themselves to be interned. The Burmese Prime Minister has stated he was personally reluctant to seek UN assistance because of the opportunities it offered for Communist exploitation, but that he could no longer resist Cabinet pressure. Nevertheless, he pointed out that the present intolerable situation had already persisted too long and that the commitment of a relatively large force of Burmese troops to deal with the Chinese interlopers was adversely affecting other military efforts against a variety of insurgents, including the Burmese Communists. Meanwhile, despite US request, the Chinese Nationalist Government has given no indication of its intent to issue the desired instructions in the near future, thereby encouraging a growing suspicion in Burmese political circles that the US is secretly supporting Nationalist activities in Burma. A satisfactory Nationalist order to its troops in Burma, whether or not it was complied with, would at least temporarily placate the Burmese, postpone their complaint to the UN, and restore wavering faith in the US.

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TOP SECRET**MOROCCO**

French Repression In their continuing efforts to undermine nationalist influence, French authorities in Morocco are adopting severe repressive measures which may boomerang in the long run. The latest French move was to extend the prohibition against public manifestations to include social meetings in private houses. Although it would be extremely difficult to enforce this ban, in the face of public rejection by nationalist leaders, the French by their policy of repression are antagonizing the natives and driving the nationalists further underground. The Communists, who are also being driven into covert activity, may now be able to persuade the nationalists that joint action is desirable, and that the only hope the nationalists have for an independent Morocco is through an uprising to displace the French. Such a Communist-nationalist coalition would increase the revolutionary potential in Morocco, but a full-fledged native revolt is not likely in the near future.

YUGOSLAVIA

Cotton Shortage Foreign exchange difficulties have prevented Yugoslavia from obtaining its 1950 cotton requirements. Failure to obtain the remaining requirement of 17,000 tons within the next few months (Yugoslavia was planning to use the proposed loan from the Export-Import bank for this purpose) may have serious repercussions on the Yugoslav economy. A marked decrease in the supply of textiles for internal consumption would remove the principal incentive to peasants for delivery of food and raw materials to the government, and to urban

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YUGOSLAVIA

workers for increasing the production of goods for export. Any decrease in production resulting from lowered worker and peasant morale would reduce Yugoslavia's ability to meet its export commitments, thereby threatening the government's five-year plan for industrial expansion and economic recovery.

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